DFAS Overview

Senior Financial Management Conference

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Your Financial Partner @ Work

Outline

- Finance and Accounting Functional History
- The State of DFAS today
- DFAS' Transformation journey

Finance and Accounting functional history, pre-DFAS

- Functions dispersed to all locations
  - 330 locations & 324 systems
- Centers reported to Service FMs (DLA=CO, USA=IN, USN=CL & AR, USAF=DE, USMC=KC)
- *Culture: Chain of Command focused*

FINANCE AND ACCOUNTING RESPONSIBILITIES		
UNIT	**MAJ COM**	**SERVICE**
Installation MilPay	Policy	Policy
CivPay	Budget	Budget
Vendor Pay	Manpower	Managerial Acct
NAF	Managerial Acct	Oversight
Disbursing		
Travel Pay		**CENTERS**
General Fund Acct		Retired Pay
Budget		Annuitant Pay
Manpower		Garnishment
Managerial Acct		Debt Collection
		Dept Acct

Finance and Accounting functional history, DFAS (91-00)

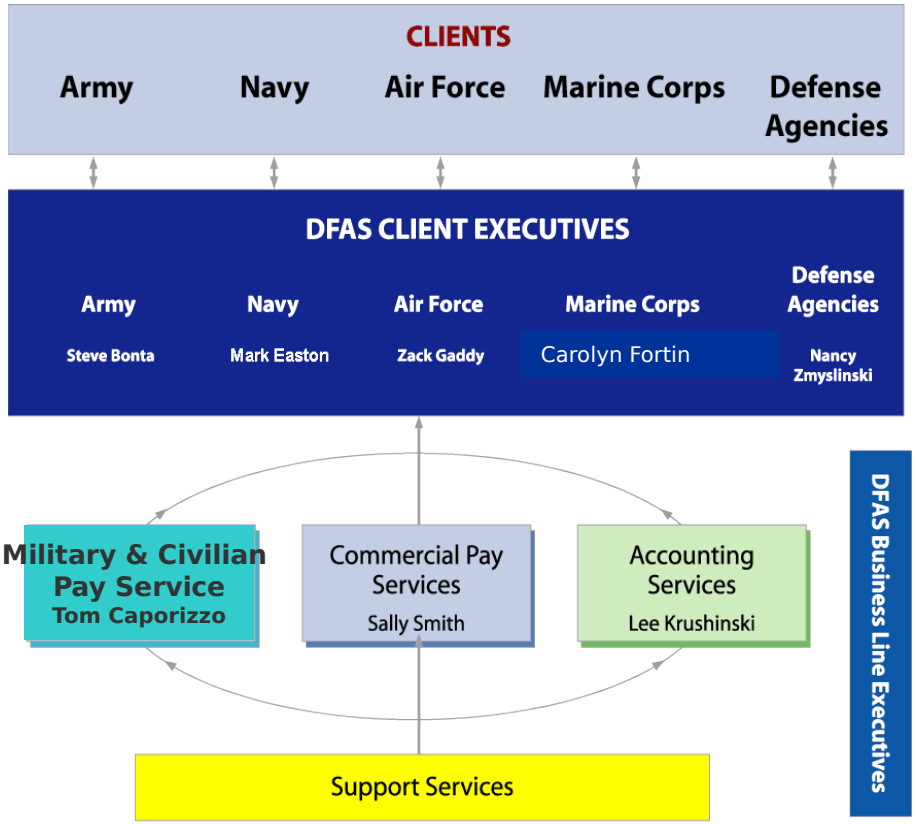
- Founded by SecDef in '91 in DMRD 910
- Phase I -- Transferred 6 service finance centers to DFAS (13,000) people
- Phase 2 -- Moved unit finance and accounting DFAS (330 field offices and more than 16,000 people) in 1993
- Phase 3 -- Consolidated regionally from 330 to 26 field sites, reduced systems from 324 to 65 and set up service networks (1996)
- *Culture: Service-centric kingdoms*

FINANCE AND ACCOUNTING RESPONSIBILITIES			
UNIT	**MAJ COM**	**SERVICE**	**DFAS**
Installation MilPay	~~Policy~~	~~Policy~~	Policy
~~CivPay~~	Budget	Budget	Installation MilPay ***
~~Vendor Pay~~	Manpower	Managerial Acct	CivPay
NAF	Managerial Acct	Oversight	Vendor Pay
~~Disbursing~~			NAF ***
Travel Pay		~~**CENTERS***~~	Disbursing **
~~General Fund Acct~~		~~Retired Pay~~	Travel Pay***
Budget		~~Annuitant Pay~~	General Fund Acct
Manpower		~~Garnishment~~	Budget
Managerial Acct		~~Debt Collection~~	Retired Pay
		~~Dept Acct~~	Annuitant Pay
			Garnishment
			Debt Collection

*** Centers became DFAS units**
**** Except OCONUS and Ships**
***** Army only, others retained**

Finance and Accounting Functions, DFAS (99-03)

- DBE -- Reorganized DFAS from geographic to business line focus and created client executives for each service (c. 2000)
- DFAS Transformation -- Leadership driven effort to generate increasing value for DFAS and determine right infrastructure for the right mission
- *Culture: Customer-focused, strategy-based, metrics driven*



The State of DFAS today -- Our Mission and Vision

- Mission: Provide responsive, professional finance and accounting services for the people who defend America.
- Vision: Best value to our customers
  - World-class provider of finance and accounting services
  - Trusted, innovative financial partner
  - One organization, one identity
  - Employer of choice, providing a progressive and professional work environment

We pay the people who defend America
We pay the contractors who support the warfighters
We provide financial information to DoD decision makers

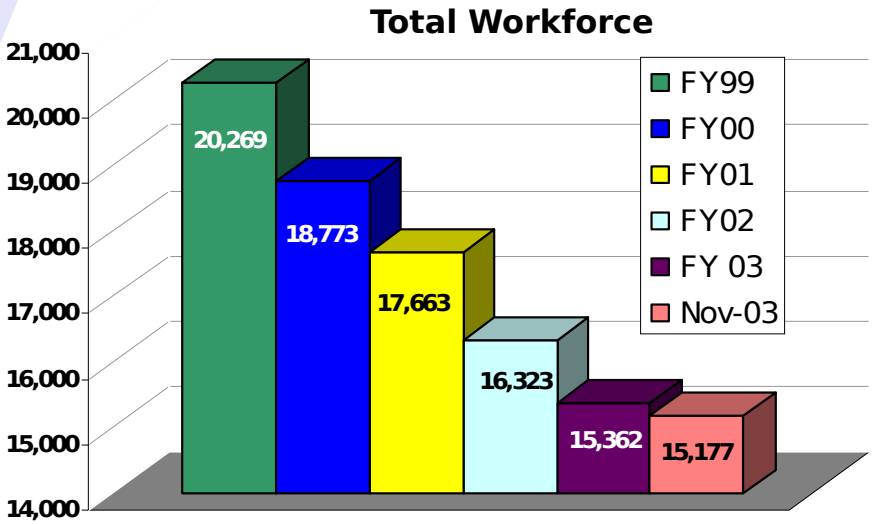
The state of DFAS today -- What we do

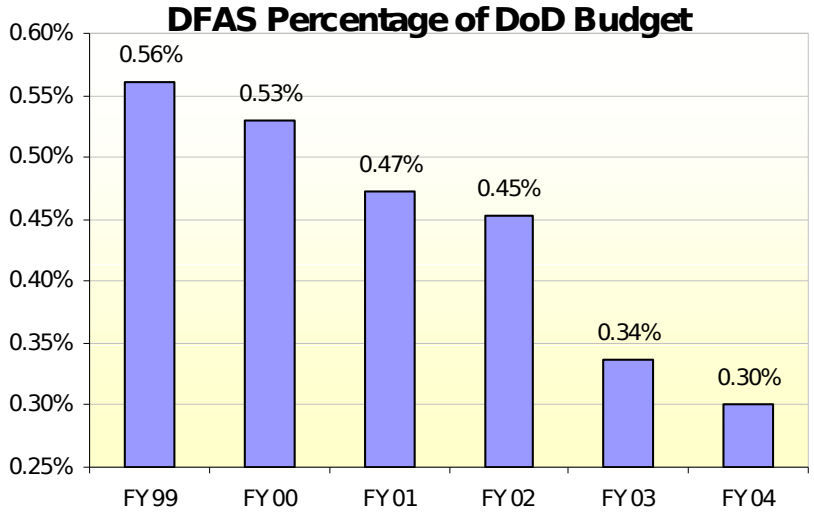
- Pay DoD military, civilians, retirees and annuitants.
- Collect and disburse DoD funds for contract, vendor, security assistance, transportation and travel payments.
- Provide finance, accounting, and reporting services for all DoD appropriated, non-appropriated, working capital, revolving, and trust fund activities.
- Direct the consolidation, standardization, and integration of finance and accounting functions, procedures, operations, and systems within the DoD.

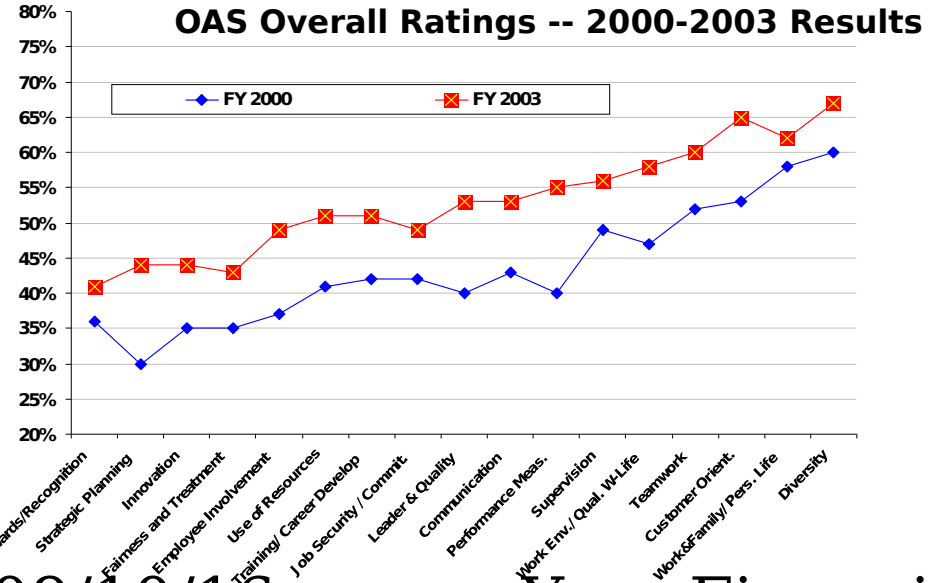
The state of DFAS today -- What we Do

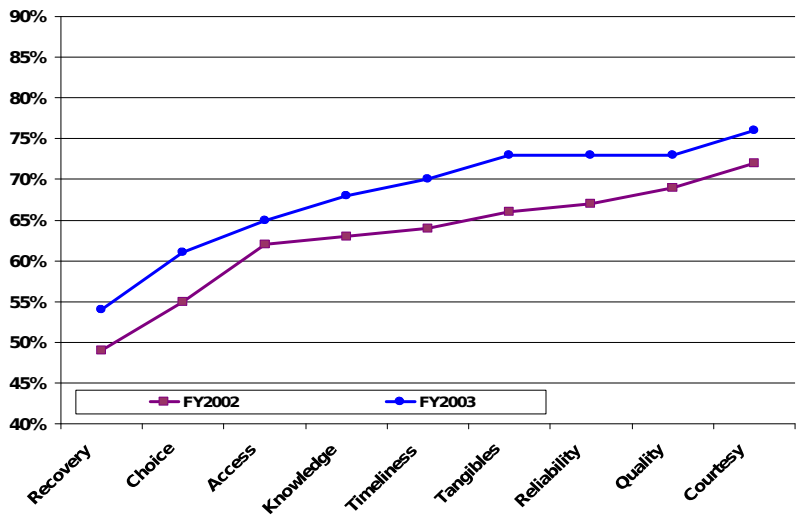
- Manage the DoD travel card program.
- Oversee, control and manage the DoD Overseas Military Banking Program.
- Provide finance and accounting advice and recommendations to the USD(C).
- Support development, issuance, and maintenance of DoD 7000.14-R, Financial Management Regulation.
- Establish and enforce DoD standards and procedures to comply with statutory and regulatory requirements.

The state of DFAS today -- DFAS at a glance









The state of DFAS today -- Total Work force

25% Decline in Total Workforce since July 1999

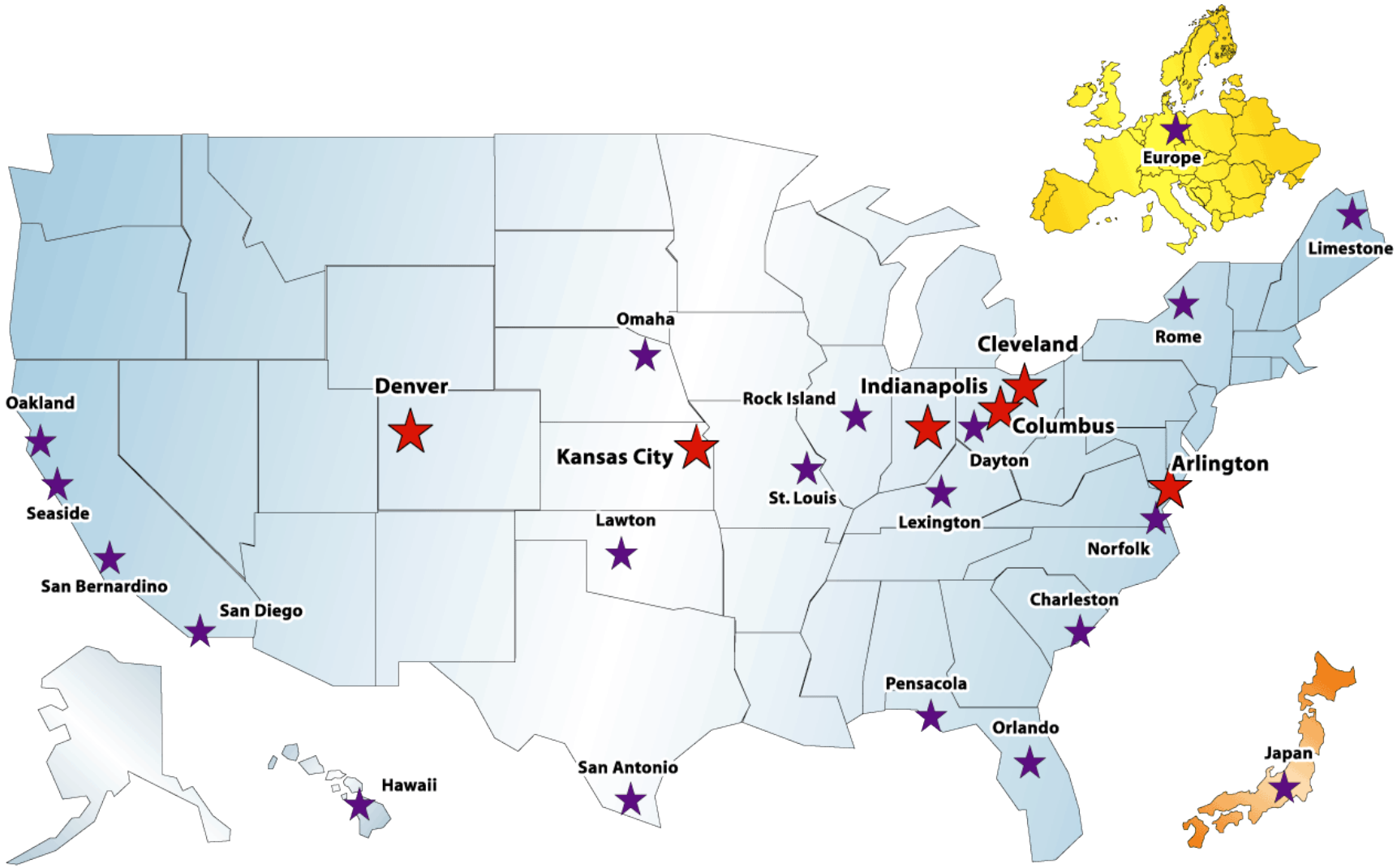
Business Lines	Jul 99	Nov 03	Change	%
Accounting Services	8,503	6,482	-2,021	-24%
Commercial Pay	3,664	2,911	-753	-21%
Military/Civilian Pay	4,157	2,842	-1,315	-32%
Technology Services	1,470	1,418	-52	-4%
Support Infrastructure	2,626	1,524	-1,102	-42%
Totals	**20,420**	**15,177**	**-5,243**	**-26%**

The state of DFAS today -- Magnitude of Operations

- 5.9M military, civilians, retirees, annuitants paid
- 6.8M travel payments
- 12.3M invoices paid
- $416B in disbursements
- 121M accounting transactions
- $1.45T total liabilities
- $13B in foreign military sales
- $197.4B in military retirement and health benefits funds
- 279 active DoD appropriations

orld's Largest Finance and Accounting Operatic

The state of DFAS today -- Locations



The state of DFAS today -- a Working Capital Fund

The White House

The administration wants accountability in all government operations

Congress

Congress provides money to Department of Defense

The Pentagon

Our customers want best value services

Pentagon and DoD agencies pay for our services

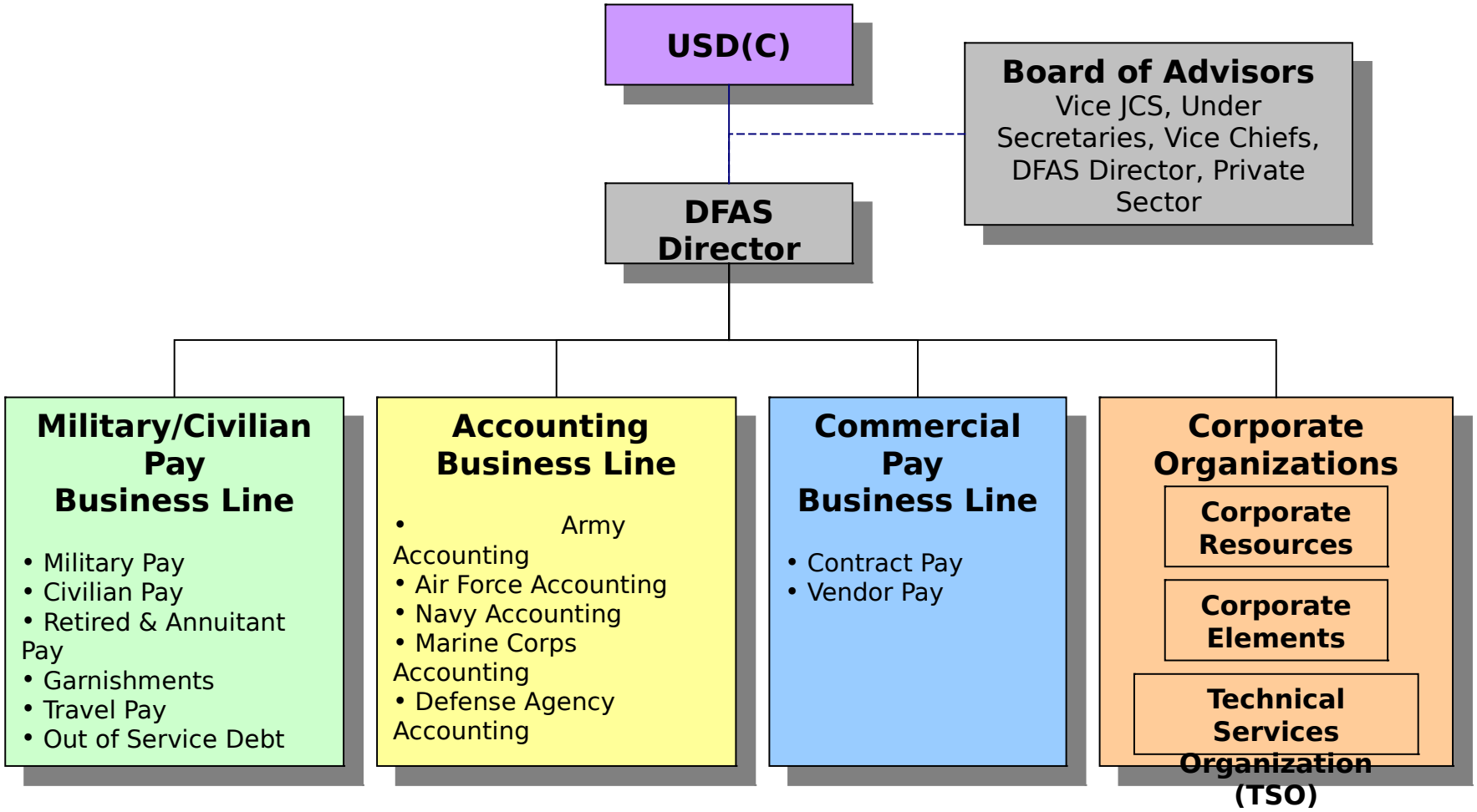
We provide our customers with best value services

DFAS

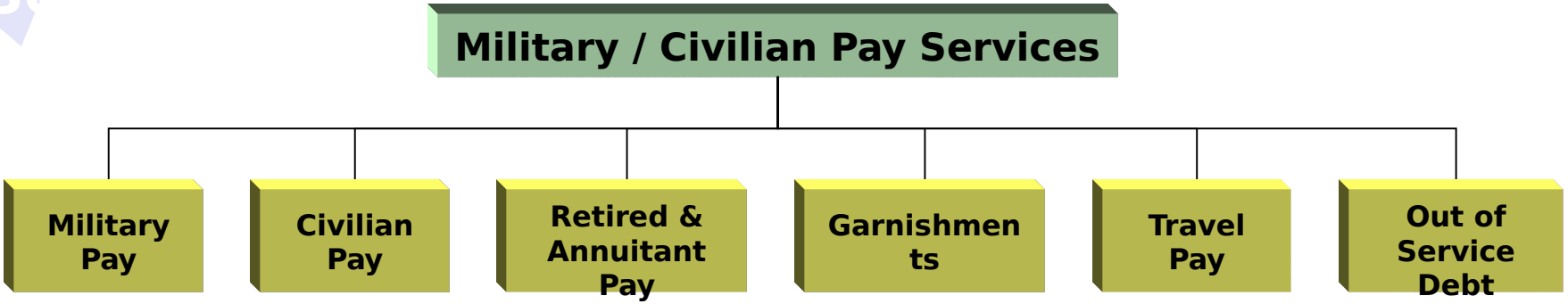
Since our creation, we have operated as a Working Capital Fund

Every dollar saved by DFAS is a dollar that can be used to better equip, train and support our warfighters

The state of DFAS today -- DFAS Structure

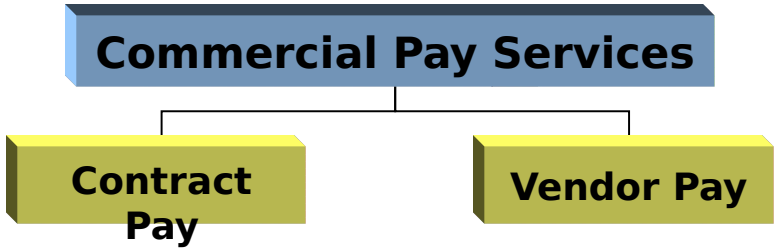


The State of DFAS today -- Military & Civilian Pay Services



- Mission: Provide timely and accurate pay services to military members, DoD civilians, and retirees & annuitants.
- Military & Civilian Pay Services Business Line includes:
  - Military, travel, and civilian pay operations and continuing government activities for retired and annuitant pay services
  - Debt and claims management
  - Garnishments
  - Certain bankruptcies (Chapter 13)
  - Congressional inquiries
  - Electronic commerce, myPay
  - Related systems management and systems test and associated procedures

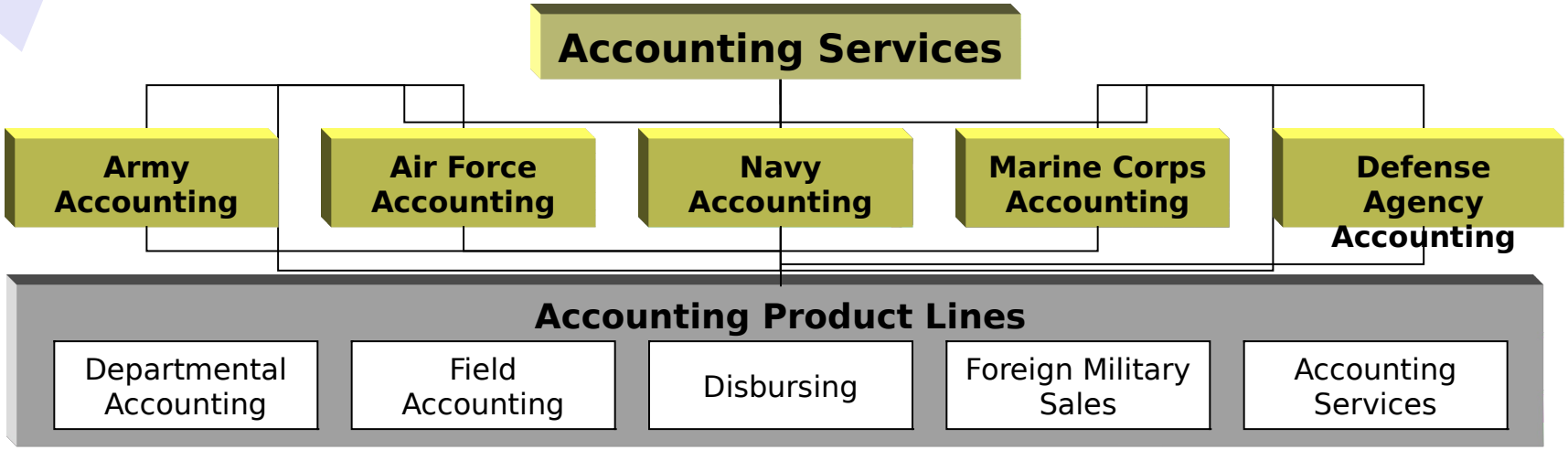
The State of DFAS today -- Commercial Pay Services



- Contract Pay Mission: Pay contractors who provide products and services to the DoD through formal long-term contract instruments.
- Contract Pay Services includes:
  - Entitlements
  - Reconciliation
  - Financial Control
  - Contractor Debt Management

- Vendor Pay Mission: Determine entitlements for non-DCMA administered contracts and miscellaneous payments to businesses and certain individuals.
- Vendor Pay Services includes:
  - Provide functional guidance and procedures for vendor payment
  - Handling of non-DCMA administered contracts and all miscellaneous commercial payments

The State of DFAS today -- Accounting Services



- Mission: Provide responsive, professional finance and accounting service to the DoD by making payments and collections, recording financial events, classifying, summarizing, and reporting the results of business transactions in financial (monetary) terms.
- Accounting Services Business Line includes:
  - Accounting for appropriated, non-appropriated, working capital, and trust funds
  - Disbursing
  - Departmental reporting
  - Financial management and accounting analysis services to customers

The State of DFAS today -- Corporate Organizations

Corporate Resources

- Equal Employment Opportunity
- Acquisition Services Division
- Support Services
- Corporate Planning
- Financial Management & Comptroller
- Human Resources

Corporate Elements

- Internal Review
- General Counsel
- Corporate Communications
- Arlington Accounting
- Business Integration Executive
- Systems Integration
- Information Technology
- MilPay Systems Development
- Finance (Including DFISO)
- Defense Finance Systems PMO

Technical Services Organization

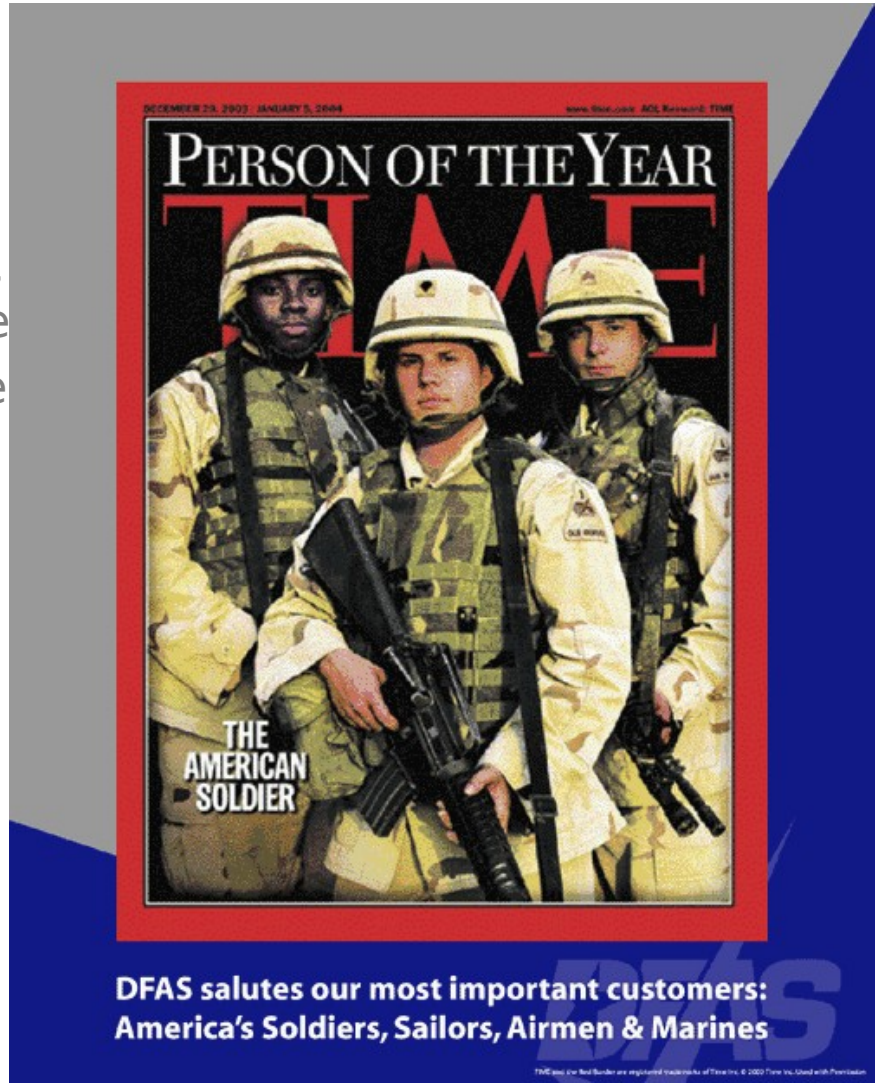
- Corporate Services

TSO

- Cleveland
- Columbus
- Denver
- Kansas City
- Pensacola
- Indianapolis
- Pax River

DFAS' Transformation Journey

- BoA challenged DFAS to rethink what it would look like in the future
  - Initially planned to evaluate A-76, HPO or PPV for all of DFAS at once
  - Review determined DoD would be better served by a separate assessment of each product line
  - Endorsed by OSD leaders
- Continue to drive best value for the customer through
  - Greater effectiveness
  - Increased efficiency
  - Continued productivity gains
- Transformation is a team effort and touches everyone in DFAS


PERSON OF THE YEAR
TIME
THE AMERICAN SOLDIER
DFAS salutes our most important customers:
America's Soldiers, Sailors, Airmen & Marines

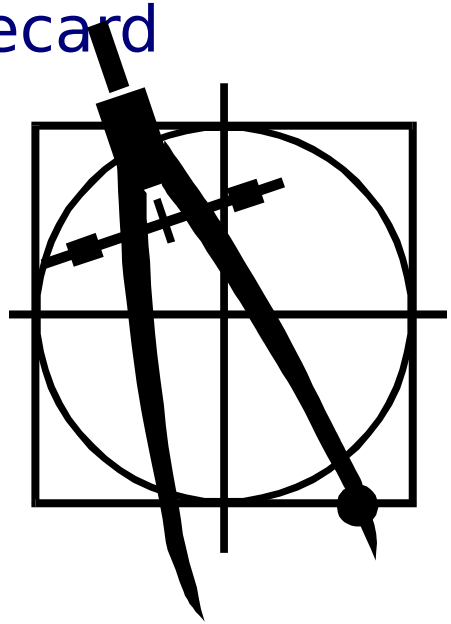
DFAS' Transformation Journey -- Why?

- Today's environment demands continual adaptation to the changing forces of customer requirements, market influences, and technology improvements

- External Drivers
  - President's Management Agenda
  - Quadrennial Defense Review (QDR)
  - Defense Planning Guidance (DPG)
  - 2005 Base Realignment and Closure (BRAC)
- Internal Impacts
  - Transformation supports DFAS mission and vision
  - Must continually increase effectiveness & efficiency and reduce operation costs to remain within organization budget

DFAS' Transformation Journey -- Tools

- Analysis tool = Business Case Analysis (BCA)
- Measurement tool = Balanced Scorecard
- Quality principles = *Lean6*

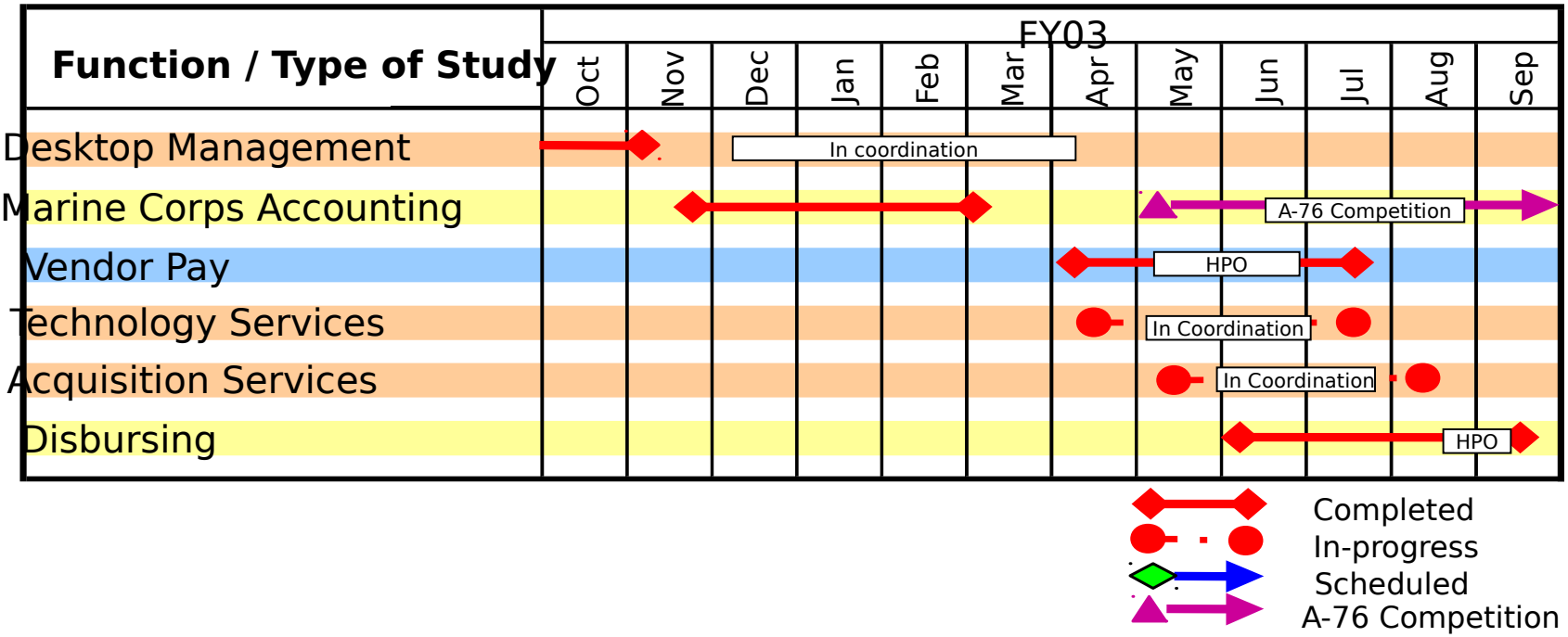


DFAS' Transformation Journey -- BCAs

- Transformation involves all business and support activities
- All DFAS segments evaluated to determine correct course
- Goal of BCA is to:
  - Define the current organization to include manpower, costs and resources
  - Analyze alternatives and presents benefits, weaknesses, personnel impact and risk assessment
  - Recommend transformation strategy options

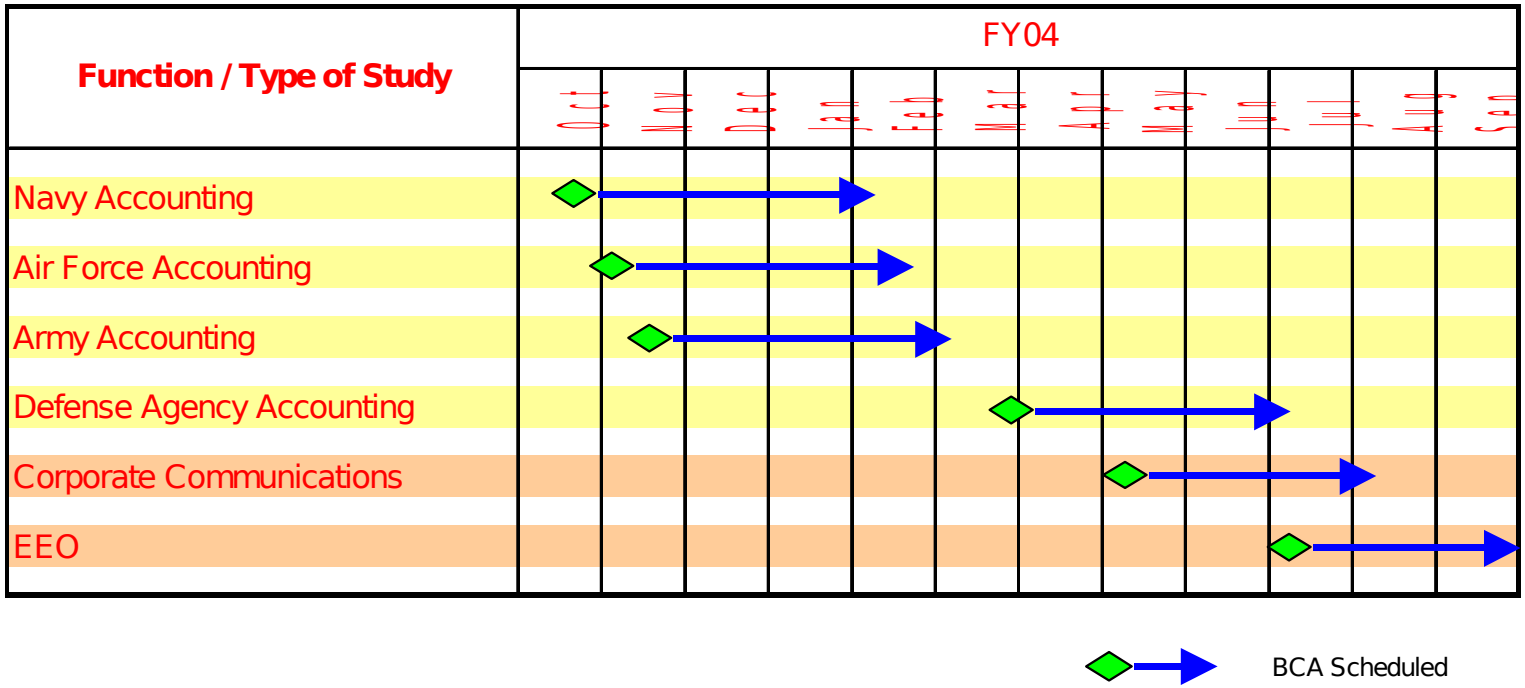
DFAS' Transformation Journey -- BCAs Schedule FY03

- Began BCA process in Spring 2003

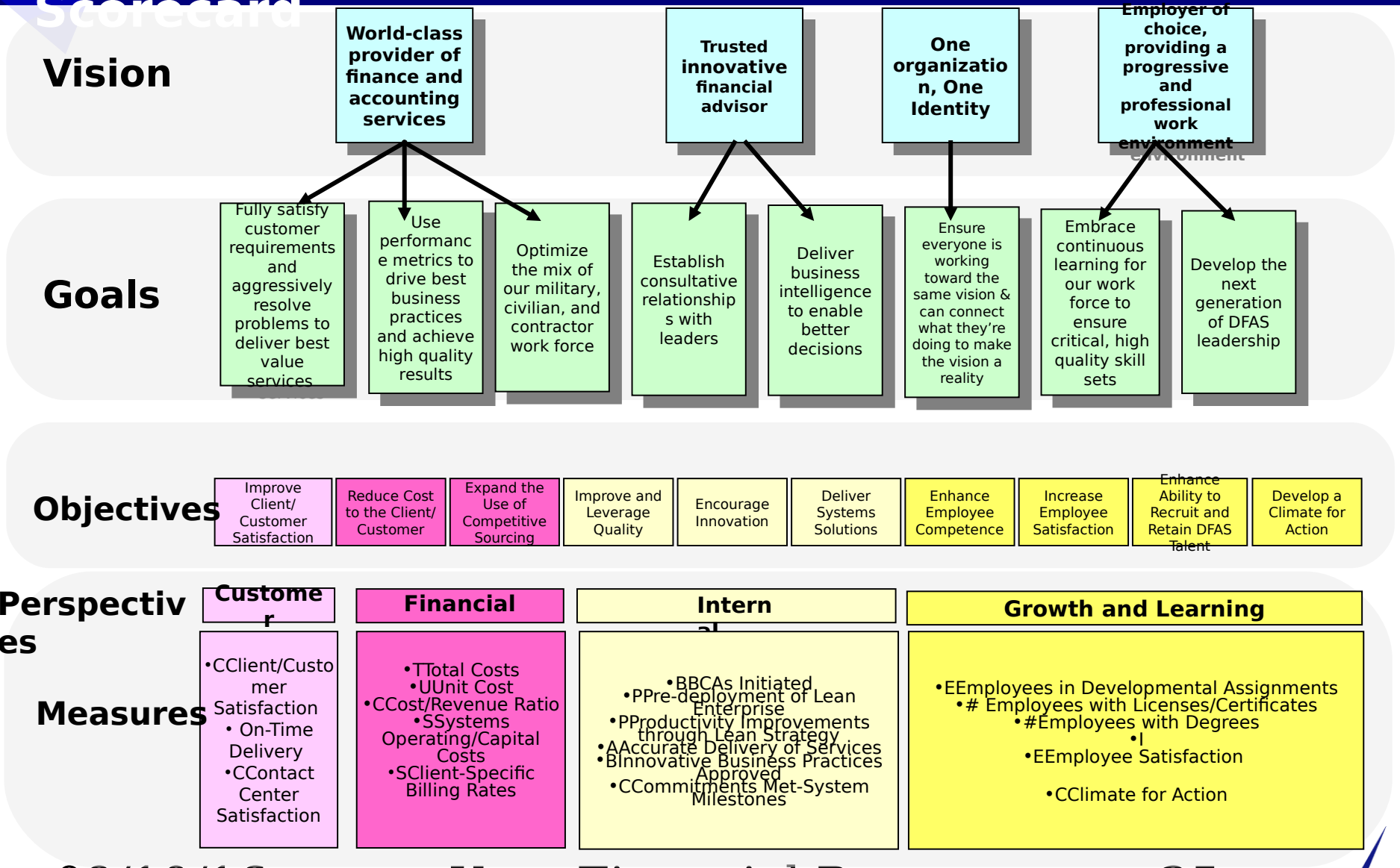


DFAS' Transformation Journey -- BCAs

- Continue conducting BCAs and implementing options
- Prepare to support and implement DoD BRAC Process

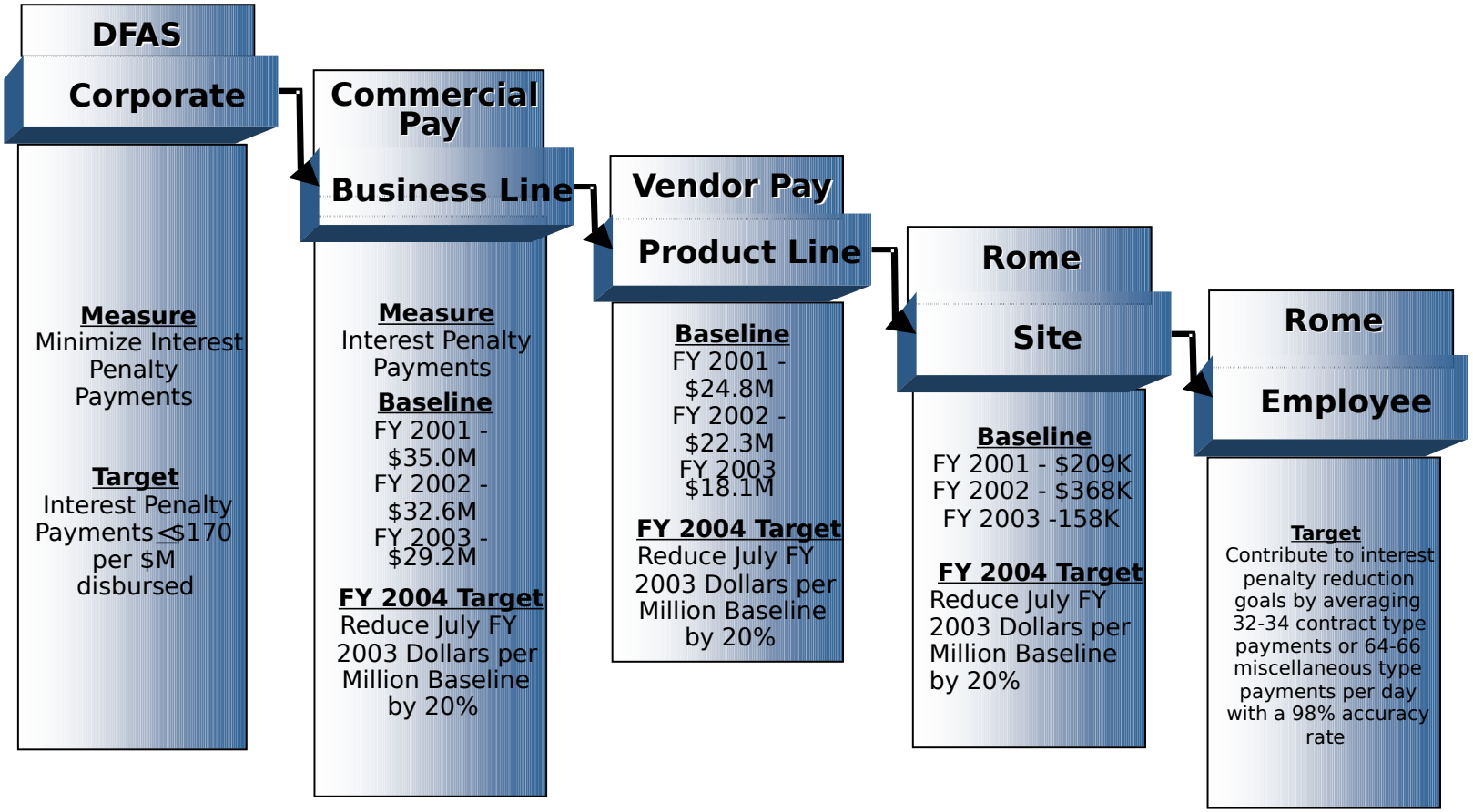


DFAS' Transformation Journey -- Balanced Scorecard


Vision
World-class provider of finance and accounting services
Trusted innovative financial advisor
One organization, One Identity
Employer of choice, providing a progressive and professional work environment
Goals
Fully satisfy customer requirements and aggressively resolve problems to deliver best value services
Use performance metrics to drive best business practices and achieve high quality results
Optimize the mix of our military, civilian, and contractor work force
Establish consultative relationships with leaders
Deliver business intelligence to enable better decisions
Ensure everyone is working toward the same vision & can connect what they're doing to make the vision a reality
Embrace continuous learning for our work force to ensure critical, high quality skill sets
Develop the next generation of DFAS leadership
Objectives
Improve Client/ Customer Satisfaction
Reduce Cost to the Client/ Customer
Expand the Use of Competitive Sourcing
Improve and Leverage Quality
Encourage Innovation
Deliver Systems Solutions
Enhance Employee Competence
Increase Employee Satisfaction
Enhance Ability to Recruit and Retain DFAS Talent
Develop a Climate for Action
Perspectives
Customer
Financial
Internal
Growth and Learning
Measures
•CClient/Customer Satisfaction
• On-Time Delivery
•CContact Center Satisfaction
•TTotal Costs
•UUnit Cost
•CCost/Revenue Ratio
•SSystems Operating/Capital Costs
•SClient-Specific Billing Rates
•BBCAs Initiated
•PPre-deployment of Lean Enterprise
•PProductivity Improvements through Lean Strategy
•AAccurate Delivery of Services
•BInnovative Business Practices Approved
•CCommitments Met-System Milestones
•EEmployees in Developmental Assignments
•# Employees with Licenses/Certificates
•#Employees with Degrees
•I
•EEmployee Satisfaction
•CClimate for Action

Balanced Scorecard Cascading Example

CUSTOMER PERSPECTIVE - Corporate Measure: Commitments Met Performance Plan



Transformation Update -- Applying Lean6 to Transform

- Lean6 is our fact-based approach for improving our business processes and delivering best value to our customers
- Established strategy & process to deploy Lean6 throughout DFAS
- Trained DFAS leaders in Lean6 concepts
  - Training for Black Belts, Green Belts & the work force in coming months
- Defined DFAS Value Chain to begin process of identifying improvement opportunities

Be agile, Think big, Act smart

DFAS' Customer Focused Strategy

Our 5 Strategic Targets

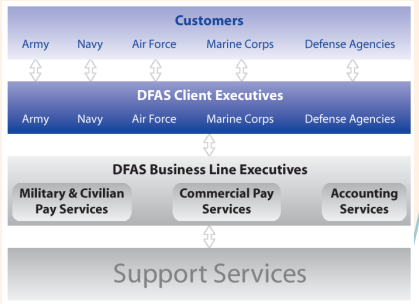
Your Financial Partner @ Work

DFAS Strategic Direction

DBE

From: Regional Focus

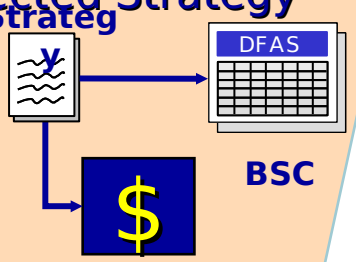
To: BL & PL Focus



Strategy & BSC

From: Budget-Driven Organization

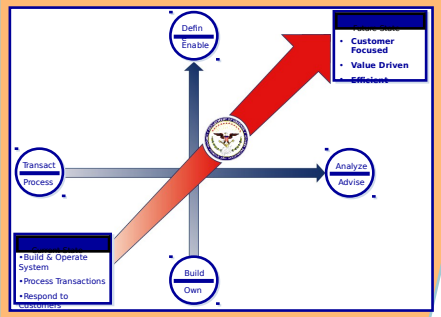
To: Leadership-Directed Strategy



Transformation

From: Processors

To: Value Creators



Vision

World-class provider of finance and accounting services

- **Trusted, innovative financial partner**
- **One organization, One identity**
- **Employer of choice, providing a progressive & professional work environment**

Customer Focused

Strategy Based

Value Generation

DFAS' Strategy - Deliver Value-Add Customer Sol

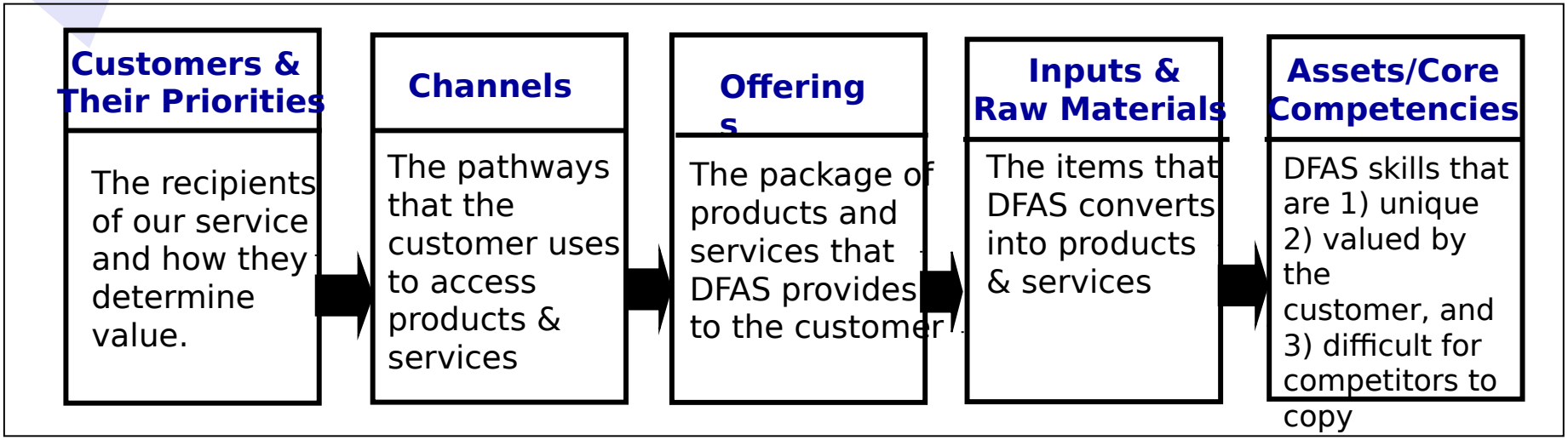
- DFAS is all about the customer
- Our best opportunity for delivering value to you is at the intersection of:
  - What you, our customer, wants us to do,
  - What we want to do, and
  - What we have the capability to do
- As we further our needs-based approach, our realm of opportunity will expand

Realistic Opportunities:
what our customers want us to do
what we want to do
what we have the capability of doing

Summary

- It’s all about the customers
- Customer-focused, strategy-based, and metrics driven
- Roadmap to future, ready to build on our record of success

DFAS Value Chain


Customers & Their Priorities
The recipients of our service and how they determine value.
Channels
The pathways that the customer uses to access products & services
Offerings
The package of products and services that DFAS provides to the customer.
Inputs & Raw Materials
The items that DFAS converts into products & services
Assets/Core Competencies
DFAS skills that are 1) unique 2) valued by the customer, and 3) difficult for competitors to copy

- The value chain defines our customers and their priorities and helps identify strategies to meet those priorities

Organizational Customers	Individual Customers
Partners in servicing our payment recipients Field Level, MAJCOM, Unified Command Pentagon/DoD, Other Federal & State Agencies, Congress, Finance Offices, State/& Local Tax Authorities	First-line payment recipients Active Duty, Retirees, Reserve/Guard, Civilians, Annuitants/Survivors, Contractors, Spouses/Families, Garnishment Recipients

Desired Customer Outcomes

- People Paid correctly, on-time, *All the time* and where they want it
- Mistakes identified and corrected promptly - 100% warranty
- Better operational support to warfighters and their families - from the warfront to the doorfront
- Consistent, complete, timely, reliable financial data in order to make more informed decisions
- Enhancements and efficiencies as a result of financial management and analysis
- Financial data formatted to support the operational and strategic mission of the customer
- All financial services for the lowest possible cost
- Enhanced professional interaction with DFAS employees

DFAS Approach to Implementation

Develop a Strategic Plan that Describes 5 Strategic Targets:

- Deliver auditable financial statement for all clients by FY 2007
- Expand electronic commerce for all Commercial Pay processing by FY 2005
- Pay service members what they are entitled to on the scheduled pay date
- Develop a Corporate capability to deliver client unique business intelligence by FY 2005
- Retain, recruit, and train a DFAS workforce capable of developing and implementing the DFAS Strategic Plan
- Each target is managed by a DFAS Senior Executive
- Targets drive operational plans and priorities in the enterprise
- Measured and communicated through Balanced Scorecard and other means

DFAS

Your Financial Partner @ Work